

Message Text

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PAGE 01 JAKART 09698 210720Z

ACTION EA-09

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P R 210558Z JUL 77

FM AMEMBASSY JAKARTA

TO USDOC WASHDC PRIORITY

INFO SECSTATE WASHDC 2617

AMEMBASSY BANGKOK

AMEMBASSY MANILA

AMCONSUL MEDAN

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

UNCLAS JAKARTA 09698

USDOC FOR OIM

EO 11652: NA

TAGS: BEXP, ID

SUBJ: TEXTILE MACHINERY SEMINAR/MISSION

REF: A) USDOC 13258, B) 76 JAKARTA 16283 (NOTAL)

1. IN REFTEL B EMBASSY JAKARTA EXPRESSED CONFIDENCE THAT U.S. TEXTILE EQUIPMENT SUPPLIERS COULD SECURE SIGNIFICANT SHARE OF MARKET AS THE LOCAL TEXTILE MARKET EXPANDS. WE ALSO SUPPORTED A TECHNICAL SALES SEMINAR AS APPROPRIATE PROMOTIONAL MEANS TO HELP AMERICAN SUPPLIERS, BUT NOTED THEN (DECEMBER, 1976) THAT DOMESTIC TEXTILE INDUSTRY WAS IN A SLUMP BECAUSE OF OVERCAPACITY, INTENSE COMPETITION FROM IMPORTS, AND DECLINE IN RURAL PURCHASING POWER. WE PROPOSED TO REVIEW MARKET SITUATION IN MID-1977 AND TO MAKE RECOMMENDATION ON TIMING FOR SEMINAR TO SECURE MAXIMUM EFFECTIVENESS IN LIGHT OF LOCAL CONDITIONS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 JAKART 09698 210720Z

2. SINCE LAST DECEMBER, PRESSURE FROM IMPORTS HAVE DECLINED SOMEWHAT AND NATURAL CAUSES FOR DECREASE IN RURAL BUYING POWER HAVE BEEN ALLEVIATED. HOWEVER, THE THIRD FACTOR--OVER EXPANSION--REMAINS A PROBLEM. TOTAL PRODUCTION IN WEST JAVA, WHICH INCLUDES JAKARTA AND CONTAINS 60 PERCENT OF TOTAL TEXTILE PRODUCTION IN INDONESIA, INCREASED FROM 640 MILLION METTERS IN 1975 TO 889 MILLION

METERS LAST YEAR, A JUMP OF 27 PERCENT. LOCAL MARKET COULD NOT ABSORB THIS INCREASE, ESPECIALLY WHEN COMBINED WITH IMPORTS. INDUSTRY SOURCES AGREE THAT OVER LONG-RUN TEXTILE INDUSTRY SHOULD GROW SIGNIFICANTLY BECAUSE OF INCREASES IN POPULATION AND IN BUYING POWER AND BECAUSE OF REQUIREMENTS TO REPLACE AND TO MODERNIZE EQUIPMENT. HOWEVER, THESE SOURCES WERE CAUTIOUS ABOUT NEAR-FUTURE EXPANSION. THEIR CONCERNS REFLECTED PERCEPTIONS OF POSSIBLE OVER PRODUCTION AND RESERVATIONS ABOUT AMOUNT OF INCREASED PRODUCTION DOMESTIC MARKET CAN ABSORB.

3. ANOTHER IMPORTANT FACTOR TO BE CONSIDERED IN DECIDING WHETHER TECHNICAL SEMINAR/MISSION SHOULD VISIT INDONESIA IS AVAILABILITY OF AMERICAN-FURNISHED CREDITS. CREDIT, ACCORDING TO LOCAL SOURCES, IS KEY FACTOR IN SELECTING NEW MACHINERY. FOR MANY INDONESIAN COMPANIES BANK CREDIT IS NOT AVAILABLE OR IS VERY EXPENSIVE. JAPANESE AND EUROPEANS OFFER LIBERAL CREDIT TERMS. U.S. FIRMS CAN IMPROVE MARKET SHARE ONLY IF COMPETITIVE CREDIT TERMS ARE AVAILABLE. U.S. PROMOTIONAL EFFORTS IN THE ABSENCE OF COMPETITIVE FINANCIAL ARRANGEMENTS WILL HAVE ONLY VERY LIMITED SUCCESS.

4. NOTWITHSTANDING PROBLEMS DISCUSSED ABOVE, INDONESIA TEXTILE MACHINERY MARKET IS A DYNAMIC ONE IN WHICH AMERICAN FIRMS ARE PRACTICALLY UNREPRESENTED. MARKET UNCLASSIFIED

UNCLASSIFIED

PAGE 03 JAKART 09698 210720Z

RESEARCH PREDICTS SALES WILL GO FROM \$160 MILLION TO OVER \$200 MILLION IN THE 1976-80 PERIOD. AS WE HAVE SAID BEFORE THIS SEEMS LIKE SITUATION WHICH CALLS FOR A USG MARKET PROMOTION EFFORT. THERE IS NO QUESTION BUT THAT AMERICAN FIRMS WILL HAVE TO INITIATE A MORE POSITIVE AND ACTIVE MARKET DEVELOPMENT STRATEGY IF THEY WISH TO OBTAIN LARGER SHARE OF GROWING EQUIPMENT MARKET. FOR THIS REASON, WE BELIEVE IT WOULD BE DESIRABLE TO HAVE TEXTILE MACHINERY SEMINAR/MISSION VISIT INDONESIA.

5. HOWEVER, AS WE HAVE NOTED, THERE ARE RECOGNIZABLE PROBLEMS TO ACHIEVE NEAR TERMS SUCCESSES AND SINCE IMMEDIATE SALES IN OTHER MARKETS IN REGION MAY WELL BE GREATER, WE WOULD NOT CONTEST JUDGMENT OF ATMA THAT VISIT TO INDONESIA AT THIS TIME SHOULD TAKE LOWER PRIORITY THAN TO MANILA, BANGKOK AND SEOUL. NEVERTHELESS, FOR THE RECORD, IF IT IS POSSIBLE, WE WOULD WELCOME VISIT FROM SEMINAR/MISSION; PROPOSED NEW TIMING NOV. 28-DEC. 9 WOULD BE ACCEPTABLE FIRST QUARTER 1978 WOULD BE PREFERRED. NEWSOM

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